

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-02 PRS-01 FEAE-00 INT-05 /106 W

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R 121505Z NOV 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6446

UNCLAS SECTION 01 OF 02 LONDON 17404

E.O. 11652: N/A

TAGS: EINV, UK

SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: (A) STATE 261921, (B) LONDON 17209

1. FOLLOWING IS BRIEF NARRATIVE STATEMENT ON UK INVESTMENT CLIMATE AS REQUESTED REF A. FOR SPECIFIC INFORMATION ON INVESTMENT CLIMATE IN SCOTLAND SEE EDINBURGH 189.

2. THE UK GOVERNMENT CONTINUES ITS TRADITIONAL POLICY WELCOMING FOREIGN INVESTMENT. DIRECT FOREIGN INVESTMENT IS PARTICULARLY ENCOURAGED IF IT CAN INCREASE EMPLOYMENT, PROMOTE BRITISH EXPORTS OR INTRODUCE NEW INDUSTRIAL TECHNOLOGIES. FOREIGN FIRMS ESTABLISHED IN THE UK ARE GENERALLY SUBJECT TO THE SAME COMMERCIAL AND INDUSTRIAL POLICIES AS DOMESTIC FIRMS. THIS NO-DISCRIMINATORY POLICY HAS BEEN THE POSITION OF SUCCESSIVE BRITISH GOVERNMENTS OVER A LONG PERIOD OF TIME.

3. INWARD DIRECT INVESTMENT IS INITIALLY SUBJECT TO THE APPROVAL OF H.M.TREASURY, UNDER THE PROVISIONS OF UNCLASSIFIED

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THE FOREIGN EXCHANGE CONTROL ACT OF 1974. THIS IS

ESSENTIALLY A SCREENING OPERATION TO IDENTIFY FOREIGN FIRMS OR INDIVIDUALS SEEKING TO ACQUIRE 10 PER CENT OR MORE OF THE SHARES IN AN EXISTING UK COMPANY WHOSE OPERATIONS ARE REGARDED BY THE GOVERNMENT AS BEING OF VITAL CONCERN TO THE ECONOMY. IN SUCH A CASE, SPECIAL CONSIDERATION WOULD HAVE TO BE GIVEN BY THE GOVERNMENT BEFORE THE INVESTMENT WOULD BE APPROVED. THE NUMBER OF CASES IN THIS CATEGORY IS VERY LIMITED. NORMAL PORTFOLIO INVESTMENT, NOT CONNECTED WITH CONTROL, DOES NOT REQUIRE ANY PERMISSION.

4. THERE ARE A NUMBER OF INCENTIVES OFFERED BY THE GOVERNMENT TO ATTRACT INVESTMENT TO CERTAIN "ASSISTED AREAS" (I.E. REGIONAL INCENTIVES). BENEFITS ARE EQUALLY AVAILABLE TO FOREIGN-OWNED AND DOMESTIC ENTERPRISES. THESE INCLUDE GRANTS TOWARD CAPITAL EXPENDITURES, TAX ALLOWANCES AND TRAINING ASSISTANCE.

5. CUMULATIVE U.S. DIRECT INVESTMENT (BOOK VALUE) IN THE UK WAS 11.1 BILLION DOLLARS AT THE END OF 1973 (LATEST FIGURES AVAILABLE). IN GENERAL U.S. AFFILIATES TEND TO BE LOCATED IN EXPANDING AND EXPORT ORIENTED SECTORS OF INDUSTRY WHICH ARE ALSO THE TECHNOLOGICALLY ADVANCED SECTORS OF THE UK ECONOMY. THIS CONCENTRATION IS PRIMARILY DUE TO COMMERCIAL CONSIDERATIONS RATHER THAN GOVERNMENT REGULATIONS.

6. THE IMMINENT COMING INTO FORCE OF THE GOVERNMENT'S NEW INDUSTRY BI/L -- WHILE IN NO WAY DISCRIMINATING BETWEEN THE TREATMENT OF FOREIGN AND DOMESTIC CONCERNS -- MEANS THERE MAY BE NEW INFORMATIONAL REQUIREMENTS PLACED ON FIRMS OPERATING IN THE UK. THE GOVERNMENT

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WILL HAVE GREATER DISCRETIONARY AUTHORITY TO REQUIRE, UNDER CERTAIN CONDITIONS, THE SUBMISSION OF COMPANY INFORMATION IN ADDITION TO THAT WHICH HAS BEEN PROVIDED IN THE PAST. (DETAILED EMBASSY REPORT OF NEW PROVISIONS WILL FOLLOW WHEN FINAL VERSION OF LAW BECOMES AVAILABLE.)

7. IN JUNE OF 1975 THE UK VOTED OVERWHELMINGLY IN A NATIONAL REFERENDUM TO REMAIN IN THE EUROPEAN COMMUNITY--THUS REMOVING A MAJOR UNCERTAINTY ABOUT BRITISH INTENTIONS. THIS DECISION HAS BEEN WELCOMED BY FOREIGN INVESTORS, ESPECIALLY THOSE ESTABLISHED IN THE UK IN ORDER TO TAKE ADVANTAGE OF OPERATING WITHIN THE COMMON EXTERNAL TARIFF WALL OF THE EC.

8. THERE HAVE BEEN SOME PROBLEMS RELATED TO THE INVESTMENT CLIMATE IN THE UK. THESE INCLUDE A HIGHER RATE OF INFLATION THAN THAT IN OTHER INDUSTRIALIZED COUNTRIES, THE TENDENCY TOWARD AN INCREASING GOVERNMENT ROLE IN BUSINESS AFFAIRS, AND THE GOVERNMENT'S PROGRAM FOR CONTROL OF AND PARTICIPATION IN NORTH SEA OIL INVESTMENTS. HOWEVER, A SUBSTANTIAL FLOW OF U.S. INVESTMENT CONTINUES, UNCLASSIFIED

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PARTICULARLY ON THE PART OF AMERICAN COMPANY SUBSIDIARIES ALREADY OPERATING IN THE UK.

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